

REPORT OF EXAMINATION  
OF THE  
LUSO-AMERICAN LIFE INSURANCE  
SOCIETY  
AS OF  
DECEMBER 31, 2005

Participating State  
and Zone:

California

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San Francisco, California  
May 4, 2007

Honorable Alfred W. Gross  
Chairman of the NAIC Financial  
Condition Committee  
Virginia Bureau of Insurance  
Richmond, Virginia

Honorable Kent Michie  
Secretary, Zone IV-Western  
Commissioner of Insurance  
Utah Department of Insurance, State of Utah  
Salt Lake City, Utah

Honorable Steve Poizner  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, an examination was made of the

#### LUSO-AMERICAN LIFE INSURANCE SOCIETY

(also referred to as the Society) at its home office located at 7080 Donlon Way, Dublin, California 94568.

#### SCOPE OF EXAMINATION

The previous examination of the Society was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The present examination included a review of the Society's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Society's operations were reviewed including the following areas that require no further comment: Society history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of Society; business in force by states; mortality and loss experience; accounts and records; and sales and advertising.

### MANAGEMENT AND CONTROL

The Supreme and governing body of the Society is composed of delegates as follows: (1) officers and directors of the Society, (2) delegates from the Luso-American Fraternal Federation and the Portuguese Continental Union (intermediate fraternal divisions), and (3) others that may be appointed or elected, with the privilege of the floor but no right to vote.

The intermediate fraternal divisions of the Society, known as the Luso-American Fraternal Federation and the Portuguese Continental Union, are entitled to send one delegate, to the biennial meeting of the Society, for each 400-adult benefit members. In addition, there shall be no more than one-third of the number of delegates from each fraternal division elected as alternate-delegates.

The board of directors, which consists of members elected at the biennial meeting, manages and controls the affairs and business of the Society by setting policy and making the rules and regulations consistent with the bylaws and the laws of the State of California. The bylaws provide that the number of elected directors shall be thirteen. The term of office of the elected directors shall be six years; one-third up for election every two years at the biennial convention. The officers are elected by the board of directors for a term to be determined by the Board. The Society's bylaws were amended in 2003 to provide that after 2005, the meeting would be held triennially and that one-half of the directors would be up for election every three years.

Officers and directors of the Luso-American Fraternal Federation and the Portuguese Continental Union are elected at their respective annual conventions. Each subordinate council of the Luso-American Fraternal Federation and lodge of the Portuguese Continental Union are entitled to

send one delegate for each 100-adult benefit members. Directors and officers of the Society serving as of December 31, 2005 were as follows:

Board of Directors

<u>Name and Residence</u>	<u>Principal Business Affiliations</u>
Carlos A. S. Amaral Hayward, California	Owner Amaral Upholstery
Jose M. Da Costa Warren, Rhode Island	Retired
Jose Da Silva Mineola, New York	Retired
Hermano De Melo Stoneham, Massachusetts	Sales Unico Service Company
John M. Dias Newark, California	Recruiter Cornerstone Staffing Solutions
Narcie J. Ferreira Dublin, California	Attorney Law offices of Ferriera and Associates
Jose M. Figueiredo Hudson, Massachusetts	Retired
Maria Edite Morais Esteves Furtado Quincy, Massachusetts	Independent Consultant
Manuel A. Minhoto San Jose, California	Executive Vice-President Luso-American Life
Michelle M. Moreira Quincy, Massachusetts	Attorney Law offices of Michelle Machado Moreira
Luis M. Nunes Tulare, California	Self-Employed Nunes Appliances

### Board of Directors (continued)

<u>Name and Residence</u>	<u>Principal Business Affiliations</u>
Frank X. Souza Stockton, California	School Administrator Manteca Unified School District
Albert S. Vieira Santa Clara, California	Owner Vieira Enterprises, Inc.

### Principal Officers

<u>Name</u>	<u>Title</u>
Frank X. Souza	President
Manuel A. Minhoto	Executive Vice President and Chief Executive Officer
J. Larry Soares	Vice President and Secretary
Donalda M. De Melo	Vice President and Treasurer
Joseph Resendes	Vice President-Sales and Marketing
John R. Miller, FSA	Consulting Actuary

### TERRITORY AND PLAN OF OPERATION

The Society operates under the lodge system as described under Division 2, Part 2, Chapter 10 of the California Insurance Code. It is licensed to transact life and annuity business in California, Connecticut, Idaho, Massachusetts, Nevada, New Jersey, Pennsylvania, and Rhode Island. The Society has a total of 110 subordinate councils. Forty-three subordinate councils are in California, seven in Connecticut, one in Idaho, twenty-seven in Massachusetts, two in Nevada, eight in New Jersey, one in New Hampshire, nine in New York, six in Pennsylvania, five in Rhode Island and one in Toronto, Canada.

The Society has six full time agents and 26 part time agents. Commission rates range from 50% to 80% the first year and 5% to 7% from 2<sup>nd</sup> through the 10<sup>th</sup> year on life products.

During 2005, premiums written totaled \$3,701,919 of which 55% was life premiums and 45% was annuity premiums.

All operating functions are performed at the Society's home office. It also maintains an office in Lexington, Massachusetts where administrative, fraternal and sales and marketing functions are also performed.

## REINSURANCE

### Assumed

The Society did not assume any reinsurance during the period under examination.

### Ceded

Effective October 1, 1999, the Society entered into an automatic reinsurance agreement with Optimum Re Insurance Company (Optimum Re), of Dallas, Texas. Under the provisions of this agreement, the Society agrees to cede to Optimum Re all excess coverages on life and waiver of premium benefit. The Society's maximum retained amount is \$40,000 on any one life. This retention limit may be exceeded by as much as \$10,000 because minimum cession is \$10,001. The reinsurer's limit is \$200,000 per life in excess of the Society's retention. The Society has a facultative reinsurance agreement with Gerling Global Life Insurance Company of Toronto, Canada.

Effective February 1, 1999, the Society entered into an automatic umbrella reinsurance agreement with Business Men's Assurance Company of America (BMA), of Kansas City, Missouri. Under the provisions of this agreement, the Society agrees to cede excess coverage of its term life insurance to BMA. The Society's maximum retained amount is \$40,000. This retention limit may be exceeded by as much as \$10,000 because minimum cession is \$10,001. The reinsurer's limit is four times the amount retained by the Society. The Society may also

cede reinsurance to BMA on a facultative basis if requirements for automatic reinsurance are not met.

### FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Summary of Operations and Surplus Account for the Year Ended December 31, 2005

Reconciliation of Surplus from December 31, 2002  
through December 31, 2005



Statement of Financial Condition  
as of December 31, 2005

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$46,300,526	\$ 31,100	\$46,269,426	(1)
Stocks:				
Preferred stocks	4,063,534		4,063,534	
Common stocks	2,647,932		2,647,932	
Mortgage loans on real estate:				
First liens	13,144		13,144	
Properties occupied by the company	4,011,409		4,011,409	
Cash and short-term investments	274,899		274,899	
Contract loans	3,724,357		3,724,357	
Aggregate write-ins for invested assets	6,466	(11,859)	18,325	
Investment income due and accrued	771,815		771,815	
Uncollected premiums and agents' balances	172,413		172,413	
Amounts recoverable from reinsurers	35,000		35,000	
Electronic data processing equipment	157,343	157,343		
Furniture and equipment	52,735	52,735		
Aggregate write-ins for other than invested assets	<u>242,410</u>	<u>242,410</u>		
Total assets	<u>\$62,473,983</u>	<u>\$471,729</u>	<u>\$62,002,254</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life certificates and contracts			\$51,111,887	(2)
Liability for deposit-type contracts			454,564	
Contract claims: Life			266,396	
Premiums and annuity considerations received in advance			10,370	
Interest maintenance reserve			483,449	
General expenses due or accrued			4,733	
Unearned investment income			108,262	
Amounts withheld or retained by Society as agent or trustee			36,280	
Amounts held for fieldworkers' account			66,299	
Remittances and items not allocated			(61,867)	
Asset valuation reserve			784,563	
Aggregate write-ins for liabilities			<u>28,245</u>	
Total liabilities			53,293,181	
Unassigned funds		<u>\$8,709,073</u>		
Total surplus and other funds			<u>8,709,073</u>	
Total liabilities, surplus and other funds			<u>\$62,002,254</u>	

Summary of Operations and Surplus Account  
for the Year Ended December 31, 2005

Summary of Operations

Premiums and annuity considerations	\$3,509,686
Net investment income	3,653,630
Amortization of interest maintenance reserve	42,070
Aggregate write-ins for miscellaneous income	<u>31,050</u>
Total	<u>7,236,436</u>

Deduct:

Death benefits	475,111
Matured endowments	22,815
Annuity and old age benefits	997,357
Disability, accident and health benefits	13,238
Surrender benefits and withdrawals for life contracts	817,173
Interest and adjustments on contract or deposit-type contract funds	12,431
Increase in aggregate reserves for life and accident and health contracts	2,706,114
Commissions on premiums and annuity considerations	169,613
General insurance expenses and fraternal expenses	1,827,153
Insurance taxes, licenses and fees	74,612
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	20,183
Aggregate write-ins for deductions	46,731
Refunds to members	<u>82,980</u>
Total	<u>7,265,511</u>

Net loss from operations before realized capital losses	(29,075)
Net realized capital losses	<u>(109,519)</u>
Net loss	<u>\$ (138,594)</u>

Surplus Account

Surplus, December 31, 2004	<u>\$8,621,366</u>
Net loss	(138,594)
Change in net unrealized capital losses	95,142
Change in nonadmitted assets and related items	46,005
Change in asset valuation reserve	<u>85,154</u>
Net change in surplus for the year	<u>87,707</u>
Surplus, December 31, 2005	<u>\$8,709,073</u>

Reconciliation of Surplus  
from December 31, 2002 through December 31, 2005

Surplus, December 31, 2002, per Examination	\$ 8,663,658
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	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net loss	\$	\$ 458,024
Change in net unrealized gain	1,055,529	
Change in nonadmitted assets and related items		71,210
Change in asset valuation reserve		487,421
Change in reserve on account of change in valuation basis	<u>6,541</u>	<u>          </u>
Total gains and losses in surplus	<u>\$1,062,070</u>	<u>\$1,016,655</u>

Increase in surplus for the period under examination	<u>45,415</u>
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Surplus, December 31, 2005 per Examination	<u>\$8,709,073</u>
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## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Bonds, Preferred Stocks, Common Stocks and Short-Term Investments

The Society's securities are not held at a qualified custodian in violation of California Insurance Code (CIC) Section 1104.9. It is recommended that the Society comply with CIC Section 1104.9 by assuring that its securities are on deposit with a qualified custodian.

### (2) Aggregate Reserve for Life Certificates and Contracts

The Society's reserve trends were reviewed by a California Department of Insurance life actuary and found to be consistent and reasonable.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Comments on Financial Statements Items - Bonds, Preferred Stocks, Common Stocks and Short-Term Investments - (Page 10): It is recommended that the Society comply with California Insurance Code Section 1104.9 by assuring that its securities are on deposit with a qualified custodian.

### Previous Report of Examination

None

## ACKNOWLEDGEMENT

The cooperation and assistance extended by the Society's officers and employees are acknowledged.

Respectfully submitted,

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Susan Bernard, CFE  
Examiner-In-Charge  
Senior Insurance Examiner-Supervisor  
Department of Insurance  
State of California